

# **PASADENA AREA COMMUNITY COLLEGE DISTRICT**

Audit Report

## **HEALTH FEE ELIMINATION PROGRAM**

Chapter 1, Statutes of 1984, 2<sup>nd</sup> Extraordinary Session,  
and Chapter 1118, Statutes of 1987

*July 1, 1999, through June 30, 2002*



**STEVE WESTLY**  
California State Controller

March 2004



**STEVE WESTLY**  
**California State Controller**

March 17, 2004

James P. Kossler, Ed.D.  
Superintendent/President  
Pasadena Area Community College District  
1570 East Colorado Boulevard  
Pasadena, CA 91106

Dear Dr. Kossler:

The State Controller's Office has completed an audit of the claims filed by Pasadena Area Community College District for costs of the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2<sup>nd</sup> Extraordinary Session, and Chapter 1118, Statutes of 1987) for the period of July 1, 1999, through June 30, 2002.

The district claimed \$678,460 for the mandated program. Our audit disclosed that \$302,519 is allowable and \$375,941 is unallowable. The unallowable costs occurred because the district claimed unsupported costs and understated claimed revenue offsets. The district was paid \$149,443. Allowable costs claimed in excess of the amount paid total \$153,076.

If you have any questions, please contact Jim L. Spano, Chief, Compliance Audits Bureau, at (916) 323-5849.

Sincerely,

*Original Signed By:*

VINCENT P. BROWN  
Chief Operating Officer

VPB:jj

cc: (See page 2)

cc: Peter Hardash, Vice President  
Administrative Services  
Pasadena Area Community College District  
Odessa Walker, Director  
Fiscal Services  
Pasadena Area Community College District  
Ed Monroe, Program Assistant  
Fiscal Accountability Section  
Chancellor's Office  
California Community Colleges  
Jeannie Oropeza, Program Budget Manager  
Education Systems Unit  
Department of Finance  
Charles Pillsbury  
School Apportionment Specialist  
Department of Finance

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## **Audit Report**

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# Audit Report

## Summary

The State Controller's Office (SCO) has completed an audit of the claims filed by the Pasadena Area Community College District for costs of the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2<sup>nd</sup> Extraordinary Session, and Chapter 1118, Statutes of 1987) for the period of July 1, 1999, through June 30, 2002. The last day of fieldwork was November 21, 2003.

The district claimed \$678,460 for the mandated program. The audit disclosed that \$302,519 is allowable and \$375,941 is unallowable. The unallowable costs occurred because the district claimed unsupported costs and understated claimed revenue offsets. The district was paid \$149,443. Allowable costs claimed in excess of the amount paid total \$153,076.

## Background

Chapter 1, Statutes of 1984, 2<sup>nd</sup> Extraordinary Session (E.S.) repealed *Education Code* Section 72246, which had authorized community college districts to charge a health fee for providing health supervision and services, direct and indirect medical and hospitalization services, and operation of student health centers. This statute also required that health services for which a community college district charged a fee during fiscal year (FY) 1983-84 had to be maintained at that level in FY 1984-85 and every year thereafter. The provisions of this statute would automatically sunset on December 31, 1987, which would reinstate the community college district's authority to charge a health fee as specified. Chapter 1118, Statutes of 1987, amended *Education Code* Section 72246 to require any community college district that provided health services in FY 1986-87 to maintain health services at the level provided during that year in FY 1987-88 and each fiscal year thereafter.

On November 20, 1986, the Commission on State Mandates (COSM) determined that Chapter 1, Statutes of 1984, 2<sup>nd</sup> E.S., imposed a "new program" upon community college districts by requiring any community college district that provided health services for which it was authorized to charge a fee pursuant to former *Education Code* Section 72246 in FY 1983-84 to maintain health services at the level provided during that year in FY 1984-85 and each fiscal year thereafter. This maintenance-of-effort requirement applies to all community college districts that levied a health services fee in FY 1983-84, regardless of the extent to which the health services fees collected offset the actual costs of providing health services at the FY 1983-84 level. On April 27, 1989, the COSM determined that Chapter 1118, Statutes of 1987, amended this maintenance of effort requirement to apply to all community college districts that provided health services in FY 1986-87 and required them to maintain that level in FY 1987-88 and each fiscal year thereafter.

*Parameters and Guidelines*, adopted by the COSM, establishes the state mandate and defines criteria for reimbursement. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for each mandate requiring state reimbursement to assist school districts and local agencies in claiming reimbursable costs.

## **Objective, Scope, and Methodology**

The audit objective was to determine whether costs claimed are increased costs incurred as a result of the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2<sup>nd</sup> E.S., and Chapter 1118, Statutes of 1987) for the period of July 1, 1999, through June 30, 2002.

The auditor performed the following procedures:

- Reviewed the costs claimed to determine if they were increased costs resulting from the mandated program;
- Traced the costs claimed to the supporting documentation to determine whether the costs were properly supported;
- Confirmed that the costs claimed were not funded by another source; and
- Reviewed the costs claimed to determine that the costs were not unreasonable and/or excessive.

The SCO conducted the audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. The SCO did not audit the district's financial statements. The scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance concerning the allowability of expenditures claimed for reimbursement. Accordingly, transactions were examined, on a test basis, to determine whether the amounts claimed for reimbursement were supported.

Review of the district's internal controls was limited to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

## **Conclusion**

The audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, the Pasadena Area Community College District claimed \$678,460 for costs of the legislatively mandated Health Fee Elimination Program. The audit disclosed that \$302,519 is allowable and \$375,941 is unallowable.

For FY 1999-2000, the district was paid \$83,464 by the State. The audit disclosed that none of the costs claimed is allowable. The amount paid in excess of allowable costs claimed, totaling \$83,464, should be returned to the State.

For FY 2000-01, the district was paid \$19,270 by the State. The audit disclosed that \$167,868 is allowable. Allowable costs claimed in excess of the amount paid, totaling \$148,598, will be paid by the State based on available appropriations.

For FY 2001-02, the district was paid \$46,709 by the State. The audit disclosed that \$134,651 is allowable. Allowable costs claimed in excess of the amount paid, totaling \$87,942, will be paid by the State based on available appropriations.

**Views of  
Responsible  
Officials**

The SCO issued a draft audit report on January 21, 2004. The SCO auditor contacted Odessa Walker, Director, Fiscal Services, on February 17, 2004, for a response to the draft report. Ms. Walker stated that the district accepts the report and will not be providing a written response.

**Restricted Use**

This report is solely for the information and use of the Pasadena Area Community College District, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*Original Signed By:*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

# Schedule 1— Summary of Program Costs July 1, 1999, through June 30, 2002

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustments</u>	<u>Reference <sup>1</sup></u>
<u>July 1, 1999, through June 30, 2000</u>				
Health services costs	\$ 545,579	\$ 545,579	\$ —	
Less cost of services in excess of FY 1986-87 services	<u>(140,275)</u>	<u>(140,275)</u>	<u>—</u>	
Subtotals	405,304	405,304	—	
Less authorized health fees	<u>(321,840)</u>	<u>(474,501)</u>	<u>(152,661)</u>	Finding 2
Subtotals	83,464	(69,197)	(152,661)	
Adjustment for authorized fees exceeding health services costs	<u>—</u>	<u>69,197</u>	<u>69,197</u>	
Total costs	<u>\$ 83,464</u>	<u>—</u>	<u>\$ (83,464)</u>	
Less amount paid by the State		<u>(83,464)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (83,464)</u>		
<u>July 1, 2000, through June 30, 2001</u>				
Health services costs	\$ 711,352	\$ 635,868	\$ (75,484)	Finding 1
Less cost of services in excess of FY 1986-87 services	<u>—</u>	<u>—</u>	<u>—</u>	
Subtotals	711,352	635,868	(75,484)	
Less authorized health fees	<u>(435,934)</u>	<u>(468,000)</u>	<u>(32,066)</u>	Finding 2
Subtotals	275,418	167,868	(107,550)	
Adjustment for authorized fees exceeding health services costs	<u>—</u>	<u>—</u>	<u>—</u>	
Total costs	<u>\$ 275,418</u>	<u>167,868</u>	<u>\$(107,550)</u>	
Less amount paid by the State		<u>(19,270)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 148,598</u>		
<u>July 1, 2001, through June 30, 2002</u>				
Health services costs	\$ 750,555	\$ 668,766	\$ (81,789)	Finding 1
Less cost of services in excess of FY 1986-87 services	<u>—</u>	<u>—</u>	<u>—</u>	
Subtotals	750,555	668,766	(81,789)	
Less authorized health fees	<u>(430,977)</u>	<u>(534,115)</u>	<u>(103,138)</u>	Finding 2
Subtotals	319,578	134,651	(184,927)	
Adjustment for authorized fees exceeding health services costs	<u>—</u>	<u>—</u>	<u>—</u>	
Total costs	<u>\$ 319,578</u>	<u>134,651</u>	<u>\$(184,927)</u>	
Less amount paid by the State		<u>(46,709)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 87,942</u>		



## Schedule 1 (continued)

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustments</u>	<u>Reference</u> <sup>1</sup>
<u>Summary: July 1, 1999, through June 30, 2002</u>				
Health services costs	\$ 2,007,486	\$ 1,850,213	\$(157,273)	Finding 1
Less cost of services in excess of FY 1986-87 services	<u>(140,275)</u>	<u>(140,275)</u>	<u>—</u>	
Subtotals	1,867,211	1,709,938	(157,273)	
Less authorized health fees	<u>(1,188,751)</u>	<u>(1,476,616)</u>	<u>(287,865)</u>	Finding 2
Subtotals	678,460	233,322	(445,138)	
Adjustment for authorized fees exceeding health services costs	<u>—</u>	<u>69,197</u>	<u>69,197</u>	
Total costs	<u>\$ 678,460</u>	302,519	<u>\$(375,941)</u>	
Less amount paid by the State		<u>(149,443)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 153,076</u>		

<sup>1</sup> See the Findings and Recommendations section.

# Findings and Recommendations

## FINDING 1— Overstated indirect costs claimed

For FY 2000-01 and FY 2001-02, the district overclaimed indirect costs by \$157,273. The district claimed indirect costs based on indirect cost rates of 47.3% for FY 2000-01 and 47.8% for FY 2001-02. However, for those years the district had a federally approved indirect cost rate of 30%. Consequently, the district overstated the indirect costs rate by 17.3% for FY 2000-01 and 17.8% for FY 2001-02. The district correctly claimed indirect costs in FY 1999-2000 using the 30% federally approved indirect cost rate.

A summary of the adjustment to indirect costs is as follows:

	Fiscal Year		Total
	2000-01	2001-02	
Audit adjustment	\$ (75,484)	\$ (81,789)	\$ (157,273)

*Parameters and Guidelines* states that indirect costs may be claimed in the manner described by the State Controller in the claiming instructions.

The SCO's claiming instructions state that community colleges have the option of using a federally approved rate prepared in accordance with OMB Circular A-21 or the alternate methodology using Form FAM-29C. The district did not calculate the indirect cost rate under the SCO's alternative methodology using Form FAM-29C.

### Recommendation

The district should ensure that indirect costs claimed are computed using a federally approved rate prepared in accordance with OMB Circular A-21, or the SCO's alternate methodology using Form FAM-29C.

## FINDING 2— Offsetting health fees understated

The district understated health fees credited against the costs of health services by \$287,865 for the audit period.

The district was unable to locate the student attendance data used to calculate the health fee revenues reported in the reimbursement claims for the audit period. As a result, the auditors used the district's GLD144-02 printouts to identify offsetting health fees for each year. The understated offsetting health fees are as follows:

	Fiscal Year			Total
	1999-2000	2000-01	2001-02	
Offsetting health fees per audit	\$ (474,501)	\$ (468,000)	\$ (534,115)	\$ (1,476,616)
Less health fees claimed	321,840	435,934	430,977	1,188,751
Audit adjustment	\$ (152,661)	\$ (32,066)	\$ (103,138)	\$ (287,865)

*Parameters and Guidelines* specifies that any offsetting savings or reimbursements received by the district from any source as a result of the mandate must be identified and deducted so that only net district health services costs are claimed.

**Recommendation**

The district should ensure that all applicable fees are offset on its claims against the mandated program costs.

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